

CLASSIFICATION RESTRICTED
 SECURITY INFORMATION
 CENTRAL INTELLIGENCE AGENCY
 INFORMATION FROM
 FOREIGN DOCUMENTS OR RADIO BROADCASTS

REPORT

CD NO.

STAT

COUNTRY Hungary
 SUBJECT Economic - Labor, organization
 HOW PUBLISHED Brochure
 WHERE PUBLISHED Budapest
 DATE PUBLISHED 1951
 LANGUAGE Hungarian

DATE OF INFORMATION 1951

DATE DIST. 17 Oct 1952

NO. OF PAGES 7

SUPPLEMENT TO REPORT NO.

THIS DOCUMENT CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF ESPIONAGE ACT 50 U. S. C. 31 AND 32, AS AMENDED. ITS TRANSMISSION OR THE REVELATION OF ITS CONTENTS IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW. REPRODUCTION OF THIS FORM IS PROHIBITED.

THIS IS UNEVALUATED INFORMATION

SOURCE Tervgazdasagi Konyvkiado Vallalat.

PROVISIONS AND APPLICATION
OF THE HUNGARIAN BONUS SYSTEM

This report is based on a 40-page brochure dealing with the bonus system designed to replace the index wage system in Hungary. The brochure was compiled by Laszlo Forrai, chief reporter of the Secretariat of the National Wage Committee, and was published in the "National Wage Committee" series of the Plan Administration Book Publishing Enterprise, a fact which gives the contents a semi-official imprint. The brochure consists of three parts: (1) an introduction, which summarizes the reasons for the adoption of the bonus system; (2) full text of Decree No 106, 5 May 1951, establishing the new system, and texts of supplementing regulations; and (3) practical advice in connection with the operation of the new system.

Subsequently, under Decree No 32 of the Council of Ministers, dated 22 April 1952, the introduction of technological norms was made mandatory. Under the latter decree, the use of statistical methods or estimated figures in calculating norms, as described below, is no longer permissible: norms are to be based on optimum operating conditions and performances and on the mandatory introduction of practical innovations. Thus, Decree No 32 of 1952 would seem to represent a considerable tightening of requirements as compared with Decree No 106 of 1951.

Data from the three parts of the brochure follows.

- 1 -

CLASSIFICATION		RESTRICTED		DISTRIBUTION							
STATE	<input checked="" type="checkbox"/> NAVY	<input checked="" type="checkbox"/> NSRB									
ARMY	<input checked="" type="checkbox"/> AIR	<input checked="" type="checkbox"/> FBI									

STAT

RESTRICTED

STAT

I. INTRODUCTION

The object of this brochure is to assist the Council of Ministers in implementing Decree No 106, dated 5 May 1951, relative to the introduction of the bonus system.

At the second congress of the Hungarian Workers' Party, Erno Gero made the following statement on the wage system based on index figures:

"We must discontinue the dual time-rate system, one form of which is called the index system. The index system is actually a time-rate system in concealed form. We must transfer as many workers as possible to the piece-rate system. All workers performing work which does not lend itself to the piece-rate system must be transferred to the time-rate system, so that a uniform time-rate system will be created. At the same time we must introduce the incentive-bonus system for time-rate workers." To arrive at the specific reasons which led to the discontinuance of the index system, it will be necessary to go into Gero's criticism in detail.

The index system operated fairly well in the first years following liberation. After the introduction of piece rates, however, the index system lost its power of incentive and became a handicap to continued industrial expansion. Moreover, the weaknesses inherent in the system itself were aggravated by malpractices. Nevertheless, it would be rash to presume that the change-over from the index system to the incentive-bonus system will be a cure-all. To overcome the shortcomings of the old system it is imperative to describe them clearly, so that they may be avoided in the application of the new system.

The following examples illustrate the defects of the index system:

1. The formulas for calculating wages were often too complicated, and only workers with a knowledge of advanced arithmetic were able to figure out their earnings.
2. The index figures were often based on unrelated elements. Thus, in a hatchery the pay of the incubator attendants was based on a formula which included the number of chicks hatched, the number of chicks delivered alive, the number of eggs received for hatching, the number of unhatched eggs, the consumption of petroleum, etc. Obviously, the incubator attendants never knew how much they were earning.
3. Sometimes the index system was used when it would have been possible to employ piece rates. This was usually done as a matter of convenience, that is, to avoid preparing norms. In other cases, the subterfuge served to place a ceiling on earnings.
4. In many cases the index system was resorted to when it was found impossible to arrive at a wage formula; the management then took flight to arithmetic acrobatics. In an enterprise, for example, the dressing-room attendants were paid according to a formula which included the value of articles which disappeared from the dressing room, the number of dressing-room attendants, the number of persons caught stealing, and a "weight" factor. It is, of course, needless to waste any comments on such a formula; however, it appears from this particular index that it was taken for granted that a certain number of articles would disappear from the dressing room and that the attendant received a reward when he caught a thief red-handed.

- 2 -

RESTRICTED

RESTRICTED

STAT

5. Large groups of workers were assigned a single index figure, even when they were employed at a distance from, or independently of, one another. For example, the pay of helpers, numbering 150, was based in an enterprise on the total time worked by piece-rate workers and helpers. This formula practically converted the helpers' wages into a lottery.

6. The index formula was often meaningless. The pay of truck drivers in a certain enterprise included the following elements: fuel consumption per 100 kilometers, a "reducing" factor, fuel actually used, number of kilometers driven during the month, freight tonnage, time in service, and a "weight" factor. The drivers were, of course, constantly at sea as to their earnings.

A proper wage system should be conducive to increased production, better quality of products, and economy in operations. Such a system is the piece-rate system. Besides the piece-rate system, only the time-rate system is recognized in socialism. To promote incentive, however, it is necessary to pay a bonus in addition to time rates under certain circumstances. As a result, the bonus system is actually a variant of the time-rate system and its introduction is expected to provide a powerful stimulus for increasing production.

II. DECREE AND INSTRUCTIONS

[This section presents in an abbreviated form Decree No 106 of the Council of Ministers, dated 5 May 1951, and Instructions No 5,649/1951 of the National Wage Committee, both of which are contained in full in the brochure. The instructions referred to are given in parentheses after each provision of the decree.]

1. The bonus system may be used for manual work in cases when savings are directly measurable.

(The object of the decree is to extend the piece-rate system on a broad basis to workers who previously received their wages under the index system. For this reason, all workers now under the index system must be placed under the piece-rate system, provided that their work is directly measurable in standard units, such as kilograms, meters, liters, etc. After the abolition of the index system, all workers who are eligible for the bonus system must receive a bonus in addition to time wages. Other workers will be paid straight time wages. In case savings are not directly measurable, a bonus may be authorized only by a minister.)

2. In general, the bonus is based on individual performance; consequently, the bonus system should be employed primarily in cases where individual performance is measurable. If, due to the nature of the work, it is impossible to measure individual performance, group performance may be set up as a basis for bonus. In this case the worker is entitled to a bonus only if his job has a direct bearing on the performance of the group. (Only performance for which authentic data is available in the plant may be used as a basis for bonus payments. Bonus is based on group performance only in exceptional cases.)

3. Primarily, the following four performance categories should be used as bases for bonuses: (a) conservation of materials, (b) reduction in the cost of production, (c) improvement in quality, and (d) increase in production. In general, improvement over previous performance is a prerequisite for bonus payments. (If the interests of an enterprise require it, the management is authorized to set up special performances not included in the above categories as bases for bonus payments.)

- 3 -

RESTRICTED

RESTRICTED

STAT

4. The performances which form the bases of bonus payments must be measurable by economic or production index figures. Each worker is entitled to a bonus in proportion to the result of his performance. (In calculating the amount of bonus payment, extra pay for overtime should not be added to the basic wages.)

5. The bonus will be based on only one performance or, at the most, on two performances. One or two additional performances may be specified as excluding prerequisites for the payment of bonus due. The following is an example of an excluding prerequisite: A worker may participate in a bonus for increase in production, provided the amount of reject does not increase; if the reject increases, the worker is not entitled to a bonus, even though production has increased.

(It is not permissible to set up a combination of several performances of the same character as a basis for bonus. For example, in tailoring it is not permissible to require an increase in production and a reduction in remnants at the same time. In general, it is preferable to set up an excluding prerequisite. In case one of two performances is not fulfilled, it must be clearly defined by how much the bonus for the fulfillment of one performance is to be reduced due to nonfulfillment of the other performance.)

6. In general, it is not permissible to modify the conditions of a performance for 6 months. Excluding prerequisites may be modified before the lapse of 6 months, provided that changed economic objectives have come into prominence in the plans of the enterprise. The conditions of the performance, or of the excluding prerequisite, must be modified before the lapse of 6 months if technological or organizational conditions affecting the fulfillment of the performance have changed, or a mistake or fraud in the calculation of the bonus has been discovered.

(The conditions of a performance which serves as a basis for bonus for innovators may be modified only 6 months after the introduction of the innovation. An innovation is considered to be in force when the innovator or another worker commences to utilize it. In case wide application of an innovation is made mandatory in a plant, the workers who accept the innovation are not entitled to preferential treatment. The workers must be notified in advance of the modification of performances for which bonus is due.)

7. The bonus must be identical for each unit of the performance. Deviation from this rule must be approved by the supervisory organ under which the enterprise is operating. (The supervisory organ may also approve progressive, diminishing, or graduated bonus scales.)

8. The total amount of bonus payments must be included in the wage fund of the enterprise and is restricted to a percentage, set by the minister concerned, of the savings due to the performances rewarded. (Wage fund plans for the third quarter of 1951 must be prepared with due regard for the changes in wages as a result of the abolition of the index system and the introduction of the bonus system.)

9. Bonus regulations will be issued by the ministers concerned for the various industrial branches under their jurisdiction. These regulations will include: (a) detailed instructions for the introduction of the bonus system with due regard for the special characteristics of the different branches of industry; (b) specifications of the performances or savings for which a bonus is payable, e. g., reduction of coke consumption in metallurgy; (c) specifications for collective performances; (d) the percentage of savings expendable for bonus payments; and (e) instructions relative to the continuous supervision of the operation of the bonus system. The bonus regulations will be issued by the ministers by 15 May 1951.

- 4 -

RESTRICTED

RESTRICTED

STAT

10. The performances, as well as the bonus rates, will be set by the manager of the enterprise. He is also authorized to allow bonus payments for performances other than those listed under (9) above.

11. The calculation of bonus payments must be clear, to permit all workers to understand it. The workers must be notified of the amount of bonus to which they are entitled for specific performances.

(Performance and bonus must be correlated in tabulated form. The bonus is payable during the month following the month of performance. At the worker's request the enterprise is required to make available to him the data which served as basis for the calculation of the bonus.)

12. Temporarily, the bonus system is to be applied first to workers whose wages are based on the index system or on time rates.

(Enterprise managers are authorized to extend the bonus system to time-rate workers when bonus performances can be set up. Introduction of the bonus system is the responsibility of the ministers concerned. Implementing regulations will be issued by the National Wage Committee. Adoption of the bonus system by the various enterprises is the responsibility of the managers.)

13. The present decree will become effective on 1 June 1951, when all regulations governing the index system will become void.

(Agricultural manual workers, except manual workers employed by agricultural-machine repair shops, are not affected by the provisions of this decree.)

III. ADMINISTRATION OF THE DECREE

The enterprises will facilitate the introduction of the decree of the Council of Ministers by: (1) making a survey of the operations of workers under the index system and (2) assigning these operations to the piece-rate, time-rate, or bonus system. The following sections are devoted largely to problems arising out of the bonus system. cursory comments will deal with certain problems affecting piece-rate and straight-time-rate workers.

Survey and Reassignment of Index-System Workers

The first step is to prepare comprehensive job descriptions for all manual workers who are now under the index system. These workers will then be reassigned either to piece rate or to time rate. The object of the survey is to find out to which of these two systems index-system workers are to be reassigned.

Concurrently with this work, technological and organizational problems must be investigated by the management in cooperation with party and trade-union representatives. Single responsibility for all decisions, however, rests with the manager of the enterprise.

In view of the 20-percent differential between piece-rate and time-rate basic wages, it is to be expected that many index-system workers will elect reassignment to the former category. These wishes of the workers must, of course, be honored.

- 5 -

RESTRICTED

RESTRICTED

STAT

Workers who cannot be reassigned to piece rate are eligible for bonus in addition to time rates, and the management is required to define the conditions governing bonus payments. It is, however, possible that, in practice, conditions for the introduction of bonus payments are nonexistent in certain occupations, e.g., when idle machine hours are recorded in a total sum and are not broken down as to causes, such as material shortage, breakage, repair, etc. In this case the maintenance workers would have to be reassigned to straight time rates without a bonus.

The remaining index-system workers will be reassigned to straight time rates. In this connection it is essential that the management should resist all efforts to upgrade workers in this category. On the other hand, the management has the responsibility of introducing technological or organizational changes which will enable it to reassign as many time-rate workers to the bonus system as possible.

Bonus System Problems

Since the bonus system was previously unknown in Hungary, the problems arising from its introduction are dealt with in detail in this section. The first steps are: (1) calculating bonus index figures, (2) calculating the amount of bonus payments, (3) in certain cases obtaining approval from supervisory organs, (4) explaining the bonus data to the workers, and (5) training wage clerks in the operation of the bonus system. The following paragraphs deal with these as well as other bonus system problems.

1. Under the decree all bonuses must be based on bonus index figures. These index figures must reflect the performance of the worker. In practice, however, certain occupations cannot be subsumed under the index figure. Thus, the bonus regulations for the automobile industry list 15 occupations and omit the helpers. In other cases certain occupations (e.g., in connection with bottlenecks) will require a special bonus. Bonuses in these cases are authorized, provided that they do not conflict with the decree and the implementing instructions of the National Wage Committee.

2. The bonus index may be calculated either from the plan figures or from statistical data. As between the two methods, calculation of index figures based on plant statistics is more complicated. In the latter case, progress as well as trend must be given due weight, instead of the acceptance of the simple arithmetic average. However, the new index is not permitted to reduce earnings; if necessary, a higher bonus rate must be employed.

3. The decree states that the total amount of bonus payments must be included in the wage-fund plan of the enterprise. It is true that basic bonuses are allocated to the enterprises by the ministries; however, these allocations represent totals. Within these totals the bonus rates are arrived at by the management as dictated by plant economy. Also, the management is free to pay out only part of the allocated sums. In short, the allocations represent a ceiling for stated performances.

4. Relative to the coordination of performance and bonus rate, the decree states that the worker is entitled to an identical bonus for each unit of performance. However, coordination other than on a linear, i.e., one-to-one, basis is also permitted, namely, on progressive, diminishing, or graduated scales. Calculations in terms of plant economy must be performed in case of a linear as well as a progressive series of bonuses, to forestall the exhaustion of allocations before the maximum performance is realized.

- 6 -

RESTRICTED

RESTRICTED

STAT

5. Performance and bonus rate are established by the manager of the enterprise. Special authorization by the supervisory organ is required in the event that the economic effect of the bonus system on the enterprise is not demonstrable, or nonlinear coordination between performance and bonus rate is proposed.

6. In establishing performances and bonus rates it is advisable to preserve, for the inspection of the supervisory organ, all documentation pertaining to bonus data. To guarantee effective supervision, all bonus data should be entered in permanent records and all calculations, approvals, and payments should be documented.

7. To satisfy the requirements of the decree as well as of economic progress, workers must be thoroughly familiar with the required performances, the amount of bonus, the excluding prerequisites, and the method of calculating the bonus. For this purpose it is advisable to have the immediate supervisors instruct the workers in the required performances and advise them as to the phase of the work which must be performed with particular care.

- E N D -

- 7 -

RESTRICTED